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GENERAL DISCUSSION ON PROGRESS IN THE IMPLEMENTATION OF AGENDA 21, FOCUSING ON CROSS-SECTORAL ISSUES AND THE CRITICAL ELEMENTS OF SUSTAINABILITY

Trade, environment and sustainable development

Report of the Secretary-General

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INTRODUCTION

1. The present report describes progress made in the implementation of the objectives related to trade, environment and sustainable development set out in chapter 2 of Agenda 21 - in particular, programme areas A (Promoting sustainable development through trade) and B (Making trade and environment mutually supportive) 1/ - since the United Nations Conference on Environment and Development held in June 1992. It makes special reference to the relevant discussion by the Commission on Sustainable Development at its second session. 2/ The report was prepared by the secretariat of the United Nations Conference on Trade and Development (UNCTAD) as Task Manager for Sustainable Development and Trade Issues, in accordance with arrangements agreed by the Inter-Agency Committee on Sustainable Development at its fourth session. It is the result of consultation and information exchange with designated focal points in United Nations agencies, government officials and a number of other individuals. The report builds considerably on work undertaken by the World Trade Organization (WTO), UNCTAD, the United Nations Environment Programme (UNEP) and elsewhere. It complements the reports submitted by the secretariats of UNCTAD, UNEP and WTO on their own activities.

2. With a view to assisting the Commission in ensuring appropriate coordination and cooperation among the relevant international forums, section I below reviews some institutional issues, paying particular attention to the progress achieved in several international forums since the second session of the Commission and existing cooperation among the secretariats of the corresponding organizations. It also refers to transparency and the involvement of the public and experts. Section II provides an overview of the principal linkages between trade and environmental policies, identifying in each case the principal issues as they emerged from Agenda 21 and the debate by the Commission during its second session. It also indicates what are the principal conceptual and empirical questions involved and how the issues are being addressed in different forums. Finally, each section raises a number of policy questions which the Commission may wish to address. Section III is on capacity-building. The summary and recommendations are contained in section IV.

I. PROGRESS IN THE IMPLEMENTATION OF WORK PROGRAMMES

A. International organizations

3. Since the second session of the Commission, progress has continued to be made in international forums, in particular in WTO, UNCTAD and UNEP, in the implementation of work programmes on trade, environment and sustainable development. The establishment of the WTO Committee on Trade and Environment and the UNCTAD Ad Hoc Working Group on Trade, Environment and Development gave further impetus to this work. In response to a request made by the Commission on Sustainable Development, at its second session, UNCTAD and UNEP co-hosted a high-level, informal meeting on trade, environment and sustainable development.

4. The WTO Committee on Trade and Environment was established in January 1995, following the decision on trade and environment adopted at the conclusion of the

Uruguay Round negotiations in Marrakesh. The Committee will identify the relationship between trade measures and environmental measures in order to promote sustainable development and make appropriate recommendations on whether any modifications of the provisions of the multilateral trading system are required, compatible with the open, equitable and non-discriminatory nature of the system. The Committee, which was created in January 1995 and held its first meeting in February 1995, will make recommendations to the first biennial meeting of the WTO Ministerial Conference, to be held in Singapore in December 1996. Progress had already been made in the Subcommittee on Trade and Environment of the Preparatory Committee for WTO, which worked through December 1994.

5. The Ad Hoc Working Group on Trade, Environment and Development was established by the UNCTAD Trade and Development Board to examine, with a view to promoting sustainable development, the interlinkages between trade, environment and development and related policies, paying particular attention to the problems and special circumstances of the developing countries, including the least developed among them. The Working Group initiated its deliberations at the end of 1994. In addition, at the first part of its forty-first session (September 1994), the Board held deliberations on the impact of environment-related policies on export competitiveness and market access. UNCTAD also continued its policy analysis on trade, environment and development. Its conceptual and empirical work involves research institutes in developing countries and contributes to reflecting developing country concerns in the international debate on trade and environment. 3/

6. Trade and environment-related issues are also under consideration in UNCTAD's Standing Committee on Commodities. In accordance with a wide-ranging work programme, at its third session the Committee discussed means by which the competitiveness of natural products with environmental advantages could be improved. At the fourth session, it will undertake an examination of the manner in which prices of natural products and their synthetic competitors could reflect environmental costs.

7. UNEP continued its analysis of legal, scientific and economic aspects of trade and environment links. It dealt with various international environmental agreements and their relationship to trade rules, the relationship between environmental risk assessment and trade policy, the role of scientific evidence in trade/environment issues and the harmonization of assessment procedures. UNEP is convening a series of technical meetings on trade and environment issues, covering, inter alia, environmental reviews of trade policy, dispute avoidance regimes, international environmental agreements and trade policy, and standards equivalency in relationship to eco-labelling. In addition to a joint UNEP/UNCTAD technical training workshop held in Nairobi on trade and environment for African countries, UNEP is planning to convene a series of regional workshops to increase environmental awareness and policy coordination with trade policy.

8. FAO is pursuing trade, environment and sustainable development issues in the context of the work in its various intergovernmental groups. Recognizing the lack of solid data on which to base specific environmental policy decisions with regard to agricultural commodities, the Committee on Commodity Problems at

its fifty-ninth meeting in 1993 encouraged Groups that had not done so to initiate work on trade policy measures relating to the environment relevant the agricultural commodities that the groups address and to assess their impact on trade flows. It also encouraged them to undertake commodity-by-commodity studies, including a technical environmental review and an economic assessment of the costs of environmental damage, on the implications of adopting environmental as well as Sustainable Agricultural and Rural Development (SARD) policies and on the national and international support required by countries that adopt such policies. 4/

9. The Organisation for Economic Cooperation and Development (OECD) is maintaining a multifaceted work programme on trade and environment, coordinated by its Joint Session of Trade and Environment Experts. The goals are to promote fuller integration of trade and environmental policy-making in national capitals; bridge gaps in understanding and communication between the trade and environmental communities; and provide analyses and perspectives in support of related work carried out by other international organizations. A set of four procedural guidelines were issued in June 1993, covering transparency and consultation, environmental and trade reviews, international cooperation, and dispute resolution; and a report on OECD member country responses to the guidelines and on the results of the Joint Session's work programme overall will be presented to the OECD Ministerial Council in late May 1995.

10. The Commission, at its second session, emphasized the need for close cooperation and complementarity in the work of the General Agreement on Tariffs and Trade (GATT)/WTO, UNCTAD and UNEP, and for appropriate contributions from other organizations involved, such as the United Nations Development Programme (UNDP), the World Bank and OECD. Since the second session of the Commission, the secretariats of the different organizations have further strengthened their cooperation and coordination of work. For example, UNCTAD and UNEP started to implement their joint programme of work on 10 issues related to linkages between trade, environment and sustainable development. 5/

11. As requested by the Commission at its second session, UNCTAD and UNEP co-hosted a high-level informal meeting on trade, environment and sustainable development (21-22 November 1994, Geneva), following up on a similar meeting held in February 1994. The meeting facilitated a policy dialogue on the complex relationship between international trade liberalization, environmental management, and sustainable development. The report on the meeting has been submitted to the Commission.

12. The UNCTAD/UNEP meeting also provided an opportunity for assessing existing cooperation and coordination modalities among the different organizations and identifying opportunities for further strengthening institutional cooperation and coordination on trade, environment and sustainable development. At the meeting it was felt that the work done by UNCTAD and UNEP was complementary to that done by WTO. Many participants drew attention to the effective cooperation between the secretariats of the GATT/WTO, UNEP and UNCTAD, which had managed to avoid duplication and to make important contributions in accordance with their respective mandates and expertise. Some suggested that such arrangements at the secretariat level should continue in an informal manner, particularly since more analytical and conceptual work on trade/environment/sustainable development

linkages was required. With regard to policy analysis, UNCTAD and UNEP were encouraged to undertake further conceptual and empirical analysis in areas related to the trade/environment discussions at WTO and elsewhere.

13. Close coordination and cooperation between intergovernmental organizations was enhanced by providing other organizations with observer status to the relevant intergovernmental bodies. For example, WTO extended observer status in the WTO Committee on Trade and Environment to the Commission, UNCTAD, UNEP, the United Nations, UNDP, the Food and Agriculture Organization of the United Nations (FAO), the International Monetary Fund (IMF), the International Trade Centre (ITC), the World Bank, OECD and the European Free Trade Association (EFTA). Similarly, the secretariats of the Commission, UNEP, WTO, ITC, FAO, UNDP, OECD and other intergovernmental organizations are actively participating in the UNCTAD Ad Hoc Working Group on Trade, Environment and Development.

B. Transparency and the involvement of the public and experts

14. The Commission, at its second session, highlighted the importance of achieving transparency, openness and the active involvement of the public and experts in relation to work on trade and environment, including that being done in WTO, UNEP and UNCTAD, and to processes for settling disputes.

15. Non-governmental organizations have continued to show a strong interest in trade, environment and sustainable development linkages. Important contributions have been made in such areas as awareness-building, public education and consensus-building. A large number of workshops, seminars and publications have contributed to a better understanding of many of the issues. 6/ There is also a growing number of international research projects on trade, environment and development linkages, involving research institutes in developed and developing countries. 7/ A noteworthy example is the set of trade and sustainable development principles prepared by a group of international experts under the coordination of the International Institute for Sustainable Development, which were endorsed by the High-level Advisory Board on Sustainable Development.

16. Some steps have been taken to increase the interaction between intergovernmental organizations and major groups. Coinciding with the start of a new phase of work on trade and environment in GATT/WTO, the GATT secretariat hosted a public symposium on trade, environment and sustainable development (Geneva, 10-11 June 1994). Around 300 people participated. The two principal objectives were to provide information on the work under way in GATT/WTO on trade and environment and to bring together recognized experts in the field to examine and debate the role that trade policies can play in environmental protection and conservation and in accelerating sustainable development. 8/ Pursuant to article V of the WTO Agreement, consultations have been taking place among WTO members on appropriate relations with non-governmental organizations. OECD has held informal consultations on trade and environment issues with representatives of environmental and industrial groups for the past four years.

17. The United Nations, including the secretariats of UNCTAD and UNEP, has recognized the importance of working closely with non-governmental organizations from developing and developed countries and with the private sector. With regard to the latter, UNEP will produce a background paper in 1995 on the role of the private sector in trade/environment issues. A number of non-governmental organizations are participating in the UNCTAD Ad Hoc Working Group on Trade, Environment and Development. In May 1994, UNEP hosted a round table for approximately 23 non-governmental organizations from South, Central and North America and the Caribbean to discuss the links between trade and sustainable development.

18. Attention has also been given to transparency in the context of the dispute/settlement mechanism in WTO, which may be called on to resolve disputes when trade issues are involved. The contracting parties may request consultation and mediation or, if those are not successful in resolving the dispute, the establishment of a panel. WTO gives each panel an opportunity to seek information and technical advice from relevant individuals or bodies. Panels may also consult experts for their opinions. This would apply to experts in the field of environment in the event of a dispute on trade-related environmental measures. On a scientific or other technical matter, the panel may request an advisory report in writing from an expert review group.

19. The High-Level Advisory Board on Sustainable Development, the Tokyo Conference on Global Environmental Action and several non-governmental organizations have proposed the establishment of a panel of experts from the trade, environment and development communities, the business sector and the secretariats of international organizations working on trade, environment and sustainable development issues.

II. GENERAL OVERVIEW

20. With the growing integration of the world economy, domestic policies, including environmental policies, may increasingly have consequences on international trade. With regard to product standards and regulations, during the Uruguay Round negotiations Governments strove to achieve a balance between the rights of countries to establish an appropriate level of environmental protection and the need to avoid unnecessary adverse impacts on trade. In the context of its work programme, the WTO Committee on Trade and Environment is examining certain requirements for environmental purposes relating to products, including packaging, labelling and recycling, for which WTO rules may not be well adapted. A certain amount of attention has focused on the effects of environmental policies on competitiveness. The focus of attention on process standards, also known as process and production methods, seems to be shifting from such issues as "eco-dumping" and "pollution havens" to the search for positive measures aimed at supporting developing countries and countries in transition in their initiatives to enhance environmental protection. Apart from product- and process-specific measures, other environmental policies can be implemented which aim at correcting policy or market failures with a view to internalizing environmental externalities. With regard to global environmental problems, the debate has primarily focused on the use of trade measures in the framework of multilateral environmental agreements and their relationship with

WTO rules - in particular where such measures are applied to non-Parties - and on the use of unilateral measures in case such agreements have not been established. Finally, environmental factors may also create trading opportunities for environmental goods and services and "environment-friendly" products. The environmental effects of trade policies involve a number of issues. Further trade liberalization is a necessary but not sufficient condition for sustainable development. Trade liberalization may have positive as well as negative environmental effects. Where trade liberalization would have negative environmental effects, accompanying policies are required. These issues are discussed below.

A. Product measures and market access

1. The issues

21. Product-related environmental measures which address the effects of consumption externalities on the environment of the importing country by specifying product characteristics clearly fall under the ambit of the WTO Agreement on Technical Barriers to Trade. The Agreement allows countries to establish an "appropriate" level of environmental protection, but requires that measures be enforced in accordance with WTO rules, including national treatment and non-discrimination. Other provisions of the Agreement are transparency and technical assistance.

22. While international trade rules are relatively well established with regard to technical standards and regulations on product characteristics, policies have emerged for which WTO rules may not be well adapted - i.e., eco-labelling, certain packaging requirements and measures aimed at promoting recycling. In the area of packaging, WTO is familiar with measures that stipulate what kinds of packaging can (or cannot) be used in a particular market, but it is less familiar with those that prescribe the recovery, reuse, recycling or disposal of packaging once it has served its original purpose.

23. Although primarily aimed at environmental objectives, there is concern that such policies may at times have unintended effects on trade. It is important to analyse the potential effects of these policies on developing countries. Where there are potentially negative effects on trade, it is important to analyse whether increased transparency and strengthened international cooperation could be established and whether rules similar to those in the TBT Agreement could be extended to cover those policies.

2. Conceptual and empirical questions

24. Although it is recognized that product-specific policies may entail adjustment costs to foreign producers, there is no systematic information on the incidence of such measures on trade or their impact on developing countries. There is some evidence that, although mandatory product-specific environmental requirements are still relatively scarce in most sectors, in specific sectors the effects of such requirements on trade may be significant, in particular for small and medium-sized firms from developing countries. More analysis is

required to assess the effects of packaging requirements and recycling policies, with a view to avoiding unnecessary adverse impacts on trade.

25. There is some concern that the effects of the proliferation of eco-labelling programmes may create certain problems for foreign producers, who have to obtain information and adjust to the requirements of different programmes if they want to apply for eco-labels. Developing countries are becoming more exposed to the effects of eco-labelling in the OECD countries since some of the new product categories that are being selected for eco-labelling are of export interest to them. In addition, in the case of these product categories, criteria often refer to materials and production processes, which it may be difficult for foreign producers to comply with. Criteria based on the environmental conditions of the importing country may be environmentally inappropriate, given the local conditions in the country of production. There is a need to avoid discrimination and adverse effects on trade. More work is also needed on concepts such as mutual recognition and equivalences.

3. Ongoing work in international organizations

26. Since 1962, FAO and WHO have been cooperating in a joint programme on food standards, the principal organ of which is the Codex Alimentarius Commission. The Uruguay Round Agreement on Sanitary and Phytosanitary Measures holds that the health-related Codex standards, guidelines and recommendations represent the international consensus necessary for the protection of human health in relation to food safety. Consequently, the Codex standards, guidelines and recommendations will now serve as the basis of national requirements as far as international food trade is concerned. 9/

27. The WTO Committee on Trade and Environment is, inter alia, examining the effect of environmental measures on market access, especially in relation to developing countries and, in particular, to the least developed among them. Deliberations were initiated by the Sub-Committee on Trade and Environment of the Preparatory Committee for the WTO. The Trade and Development Board discussed the impact of environment-related policies on export competitiveness and market access. 10/

28. The UNCTAD Working Group on Trade, Environment and Development has been deliberating on eco-labelling 11/ and, in accordance with its terms of reference, will also identify and analyse emerging environmental policy instruments with a trade impact, bearing in mind the need for international cooperation for ensuring transparency and coherence in making environmental and trade policies mutually supportive. At its second session, from 6 to 9 June 1995, the Working Group will discuss the trade, environment and developmental aspects of establishing and operating eco-labelling schemes. The UNCTAD secretariat organized a workshop on Eco-labelling and international trade (Geneva, 28-29 June 1994) as part of a technical cooperation project funded by IDRC.

29. The GATT Working Group on Environmental Measures and International Trade has worked on clarifying the trade effects of eco-labelling and packaging and analysing whether such effects might differ from those of the technical

standards and regulations that are more familiar to GATT contracting parties through the Agreement on Technical Barriers to Trade.

30. Several other international organizations are undertaking work on eco-labelling. Discussions in the OECD Joint Session on Trade and Environment have focused on issues such as life-cycle management and process and production methods. The OECD Workshop on Life-cycle Management and Trade (July 1993) looked at the trade implications of OECD packaging, eco-labelling and recycling initiatives, and OECD, in cooperation with the UK Department of Trade and Industry of the United Kingdom of Great Britain and Northern Ireland and the United Kingdom Eco-labelling Board organized a workshop on eco-labelling and international trade (6-7 October 1994).

31. UNEP's work on eco-labelling concentrates on mutual recognition and equivalency issues in connection with existing international environmental standards and on the preparation of policies and research related to the selection of criteria and the environmental effectiveness of eco-labelling schemes. UNEP continues to cooperate with UNCTAD in examining trade-related issues of eco-labelling.

32. The International Standards Organization (ISO) - in particular, its Technical Committee 207 - is preparing three international standards concerning environmental labelling. They will consist of guiding principles aimed at ensuring the credibility and non-discriminatory character of environmental labelling.

33. At the level of industrial subsectors, UNIDO has undertaken an examination of technical guidelines for international eco-labelling schemes. The first initiative was taken with the leather and leather products industry, for which UNIDO organized a meeting of industry experts from developed and developing countries (3-4 October 1994). The experts examined various eco-labelling schemes and asked UNIDO to draw up technical criteria for eco-labelling based on existing schemes and in consultation with concerned intergovernmental and non-governmental bodies and appropriate technical institutions. UNIDO will be pursuing this work in 1995 and, based on its experience with the leather and leather products industry, will take up the issue of technical guidelines in other industry subsectors of concern to developing countries.

4. Policy questions

34. Product standards, even international ones, may at times involve onerous adjustment costs for developing countries. Ex-ante transparency, dissemination of information, technical assistance, and technological cooperation are important, particularly when there may be a negative trade impact from such standards.

35. In the area of packaging and recycling policies, adverse effects on developing countries can be avoided or mitigated by ensuring sufficient recycling facilities for materials used by exporters from developing countries and by providing technical assistance aimed at improving the recyclability or reuse of such materials. Special attention could be given to the production of

and the trading opportunities for environment-friendly materials from developing countries, such as jute (see sect. E below).

36. Several possibilities have been examined for taking into account the interests of foreign producers, including those from developing countries, in the elaboration of eco-labelling criteria. In the short run, it seems useful to improve transparency and to exercise care in applying criteria on process and production methods in product categories where imports, particularly from developing countries, are predominant. In the longer run, exploring the scope for "equivalencies" and mutual recognition between eco-labelling schemes seems a useful approach. UNEP and UNCTAD are cooperating on these issues.

B. Process standards and competitiveness

1. The issues

37. More stringent process requirements generally result in environmental benefits, provided that the specific environmental and developmental situation in each country is taken into account. There may also be long-term economic benefits by protecting human health and productivity at the national level. In certain cases process standards may enhance competitiveness of regulated firms - for example, by inducing pollution prevention measures, ranging from better household practices to technological innovations resulting in new production processes. However, since the costs of compliance are borne by individual firms, increased costs of production associated with process standards might adversely affect the competitiveness of firms in countries where process standards are more stringent - or better enforced - than in other countries.

38. From an environmental point of view, concern is sometimes voiced that competitiveness issues may prevent the introduction of more stringent environmental standards. Thus questions regarding "implicit" subsidies, "eco-dumping", and "environmental" countervailing duties in order to "level the competitive playing field" may arise.

39. Empirical analysis suggests that the overall competitiveness effects of generally higher environmental standards have not as yet played a major role in competitiveness. Studies show little evidence that "dirty" industries have migrated because of differences in environmental requirements across countries. There is no hard evidence of "eco-dumping". 12/ Moreover, strategic policies aimed at obtaining short-term economic benefits by deliberately setting standards at an artificially low level, or not enforcing them, are unlikely to be practised on a rational basis. Maintaining lax environmental standards and enforcement may entail greater costs in abatement, resource degradation and depletion in the future.

40. Seeking cost-effective solutions and innovative ways of moving towards more stringent process requirements is of key importance. There is growing recognition that measures that support developing countries and countries in transition in their efforts to enhance environmental protection, taking into account their environmental and developmental conditions, would further reduce potential friction, apart from bringing environmental benefits.

2. Conceptual and empirical questions

41. Empirical analysis suggests that the overall competitiveness effects of generally higher environmental standards have been small. 13/ More work is needed, however, to analyse the effects of more stringent environmental standards in specific cases and sectors. As noted by the Commission, at its second session, such work should take into account the facts that there are legitimate reasons for diversity in environmental regulations across countries, and that differences in the relative costs of production constitute the very basis for gains from international trade.

42. The cost of compliance with specific standards may be higher, in relative terms, for firms in developing countries - for example, due to lack of technologies and infrastructure or to differences in environmental conditions and priorities. 14/ More work is needed on the differential effects of environmental standards on developed and developing countries.

43. Although international trade rules do not allow countries to impose domestic process standards on imported products, process and production methods are nevertheless gaining importance in the context of international trade. Consumers and processing industries in the developed countries sometimes require information on such methods or request foreign suppliers to use specific methods or raw materials. Thus, the environmental quality of products and production processes may become more important as a factor of international competitiveness and may increasingly influence business strategies. 15/ Adjustments to the environmental requirements of foreign clients may be beneficial to the environment if they are also appropriate in the context of the economic, technological and environmental conditions in the country of production. However, specific methods, which are based on environmental conditions and priorities in the importing country, may at times be irrelevant and environmentally inappropriate in the producing country.

44. Case-studies undertaken under joint UNCTAD/UNDP and UNCTAD/UNEP projects have revealed the need to undertake further analysis of the differential impacts of environmental standards on small and large firms. Small firms have more difficulty in gaining access to information, technology and capital. And economies of scale may be significant in environmental investment. The case-studies report further on various domestic initiatives undertaken to improve process and production methods.

3. Ongoing work in international organizations

45. Process standards and regulations and their effects on trade and competitiveness have been discussed in UNCTAD and OECD. Some of the deliberations at the first part of the forty-first session of the Trade and Development Board, on the impacts of environment-related policies on export competitiveness and market access, focused on this matter. Deliberations will be continued in the Ad Hoc Working Group on Trade, Environment and Development, at its second session.

46. Work on process and production methods has also been carried out in OECD - in particular, by the Joint Session of Trade and Environment Experts. OECD organized a workshop on this issue, hosted by the Government of Finland, in April 1994. It has developed a conceptual framework for analysing the motivations and rationale for using trade restrictions based on the process and production methods of a product. 16/

47. Recognizing the general lack of appropriate methodologies to measure the trade effects of product or process-related environmental measures, the FAO Committee on Commodity Problems will meet (3-7 April 1995) to consider a methodology based on differences in the costs of compliance with environmental measures in different countries. 17/

48. With a view to assisting developing countries evaluate the environmental and safety performance of technological options, UNEP's Environmental Technology Assessment (EnTA) Programme is carrying out a feasibility study on environmental performance indicators. The work of UNEP, OECD and others on such indicators might lead to the development of a cleaner technology customs list, which could be the basis for export promotion activities aimed at information and cleaner technology transfer.

4. Policy questions

49. Pressures to impose specific standards on other countries are likely to be perceived as protectionist. Positive measures, such as improved market access, improved access to technology and finance, and capacity-building, are more effective in supporting developing countries and countries in transition in their efforts to upgrade product and process standards. Governments of OECD countries and multilateral aid agencies should strengthen efforts to implement such measures. International organizations could undertake further work in this area with a view to identifying innovative approaches. Important initiatives have already been taken, such as the UNIDO/UNEP National Cleaner Production Centres. More work is needed to identify innovative sources of financing of cleaner production and to foster appropriate methods. It may be useful to identify a set of policies which are simultaneously of an environmental and developmental nature - e.g., improvements in waste water treatment may help upgrade process and production methods and provide a better quality of life for the poor. In designing policies to address such methods, priority should be given to such policies.

50. Many developing countries are undertaking important initiatives to enhance their environment. Appropriate environmental measures, however, should take account of the capacity of each country to implement the measures, and in some cases standards may need to be phased in gradually. In addition, infrastructural investment may be a higher priority in sustainable development policies in developing countries.

C. Internalization of environmental externalities and trade

1. The issues

51. The Commission, at its second session, urged national authorities to endeavour to promote the internalization of environmental costs and the use of economic instruments, taking into account the approach that the polluter should, in principle, bear the cost of pollution, with due regard to the public interest and without distorting international trade and investment. The private sector also has to play a role here.

52. At the November 1994 UNCTAD/UNEP high-level meeting on trade, environment and development also, it was felt that internalization had to go hand in hand with the process of development itself.

53. Policies for selecting and implementing measures associated with the internalization of externalities, particularly when internationally traded products are involved, are still in the early stages of development and have not yet been widely tested. The policies address those who make decisions concerning what is produced, the manner in which production takes place, and what is consumed. They provide an incentive to the agent responsible for creating environmental damage to reduce or eliminate it. Furthermore, in cases where an environmental service is being provided, economic incentives can be created to reinforce that service.

2. Conceptual and empirical questions

54. Considerable methodological difficulties exist with regard to internalization, but such issues are not only technical but also political and economic. Since internalization will affect relative costs, it is important, in the context of trade, that its effects on competitiveness be well understood as regards both the short and the long term. Analysis should focus on the magnitude of the effects and possible cooperative approaches. The economic benefits need also be assessed more accurately.

55. Although it is not a prerequisite for internalization measures - which in an ideal world would be implemented individually by countries - a cooperative approach leading to a multilateral and multiproduct internalization of externalities would create incentives for undertaking the desirable policies and thus help to counterbalance the concern for competitiveness effects, which may impede unilateral measures of internalization. Therefore, work on institutional ways of facilitating such an approach is of considerable importance. So far, research in this respect has focused on a cooperation model for specific commodities. 18/

56. Two important questions are how much should be internalized and at what cost and, especially, who will bear the (private) economic cost of internalization (consumers in developed countries or producers in developing countries).

3. Ongoing work in international organizations

57. Cooperation between UNCTAD and UNEP includes a specific element on the internalization of environmental externalities. Work focuses on the practical problems that need to be resolved so that policies undertaken in respect of internalization do not impair the development efforts of developing countries and that they are consistent with the economic, financial, institutional, legal and social conditions of those countries. An important aim of this work is to draw conclusions regarding national and international policy-making, including economic, legal, financial and institutional matters.

58. Case-studies are under way in UNCTAD to assess the impact of internalization measures on variables such as income distribution, social indicators and employment, in addition to their impact on international competitiveness. The results are likely to be influenced by the choice of policy instruments, which in turn are likely to be based on the specific conditions prevailing in each country. An assessment of the marginal costs and benefits of reducing pollution is also important.

59. Case-studies are under way also in FAO to assess the environmental impacts associated with the production and local processing of individual agricultural commodities. For that purpose, and in order to have a basis for comparison, FAO has developed a methodology for the economic valuation of environmental impacts, to be used as a common approach for such assessments. 19/ The OECD Environment Directorate has for more than 20 years carried out analyses of the most effective designs of environmental policy instruments, particularly economic instruments, for the internalization of environmental costs.

4. Policy questions

60. National Governments should endeavour to promote the internalization of environmental costs. However, there are uncertainties and risks involved. The implications not only for consumption and trade but also for other economic and social variables are just starting to be analysed by the international community. International cooperation is necessary for assessing those implications and providing a supportive international framework to facilitate the efforts being made by developing countries. As recognized in Agenda 21, in order to support sound environmental policies in developing countries, international cooperation is needed to remove trade distortions, improve the functioning of commodity markets, improve the terms of trade of developing countries, reduce indebtedness, increase financial assistance and facilitate the transfer of technology.

D. Multilateral environmental agreements and trade policy

1. The issues

61. There is wide agreement that measures addressing transborder, regional and global environmental problems should, as far as possible, be based on international consensus. International externalities require regional or global

agreement on norms and standards (which, however, may be differentiated) and raise the question of the distribution of the costs of environmental protection and improvement between countries. Technical and financial assistance have been incorporated into some multilateral environmental agreements to induce countries to adopt first-best environmental policies. In some cases trade measures have also been incorporated into such agreements to be used only as a last resort in the event of non-compliance.

62. Much of the debate has focused on the use of trade measures in the framework of multilateral environmental agreements and their relationship with WTO rules, in particular where such measures may be applied to non-Parties. Another issue relates to the competitiveness effects of obligations under the agreements, particularly on developing countries. Funds are required to encourage the transfer of technology and capital to developing countries in order to facilitate the achievement of environmental objectives. However, the funding levels of the Global Environmental Facility are below requirements, and the momentum of financial commitments has dropped since UNCED.

2. Conceptual and empirical questions

63. In the recent UNCTAD/UNEP high-level meeting on trade, environment and development, it was felt that future work on multilateral environmental agreements should focus on a more detailed empirical analysis of the use of trade measures, including conditions for the legitimate use of trade measures, the design of such measures, special circumstances of developing countries in relation to the agreements and trade policy, and the additional financial and other requirements for developing countries. Such an analysis could look at both the use of trade measures themselves, and at how to maximize the effectiveness of multilateral environmental agreements in general.

64. The impact of trade provisions on the competitiveness of firms in developing countries should be analysed in greater detail.

3. Ongoing work in international organizations

65. The GATT Working Group on Environmental Measures and International Trade (EMIT) and, subsequently, the Subcommittee on Trade and Environment have discussed several options to clarify the relationship between the trade provisions in multilateral environmental agreements and the WTO provisions. First, it has been suggested that countries could ensure that all trade measures taken in the framework of new agreements would be consistent with the existing WTO provisions. This would, however, not resolve the case of existing trade provisions in multilateral environmental agreements already in force. Two other options have been suggested. One ("ex-ante") option is an agreed interpretation of article XX, on exceptions, according to which trade measures taken in the framework of international environmental agreements which may be otherwise inconsistent with the WTO provisions would be allowed under strictly specified conditions. Another ("ex-post") option is to obtain a WTO "waiver" for trade measures which may be inconsistent with the existing WTO provisions. An

examination of these issues is continuing in the WTO Committee on Trade and Environment.

66. An examination of the necessity and effectiveness of trade measures to achieve the multilaterally agreed-upon purposes of a multilateral environmental agreement should take into account the special expertise of other international organizations, particularly UNEP. There may be a need to build predictability and to provide guidance regarding the use of trade measures in future agreements.

67. UNEP has produced several background research papers in this area. 20/ In 1995, an ad hoc legal and technical group will be convened to examine the relationship between international environmental agreements and trade policy. The first meeting will focus on trade in chemicals and on recent developments in international legal instruments for prior informed consent in trade in chemicals, based on the London Convention 21/ and other developments.

68. OECD has developed a typology for examining the use of trade measures for environmental purposes, based on their linkage to national and international environmental law, including multilateral environmental agreements; and the geographical scope of the environmental problem (domestic, transboundary, global). The typology is intended to clarify the continuum between unilateral and multilateral trade measures for environmental purposes.

4. Policy questions

69. It is generally felt that positive measures should be preferred to trade measures to encourage the widest possible participation in multilateral environmental agreements and that trade provisions in new agreements should be consistent with the WTO rules and trade principles, such as non-discrimination, least trade restrictiveness, and transparency. It is also necessary to examine the effects of proposed trade measures on the trade and competitiveness of developing countries and, where such effects are negative, how adequate compensation could be provided in order to induce compliance with the agreement.

E. Environmental factors as trading opportunities

1. The issues

70. Environmental policies, standards and regulations, apart from contributing to environmental improvements, are a major driving force of the "environmental sector", which is seen as a source of market opportunities and job creation. Developing countries constitute an important and growing market for environmental goods and services. Although items resulting in international trade represent only a small portion of total environmental spending, they nevertheless represent a significant amount of trade. 22/

71. In a number of OECD countries, export promotion programmes target environmental protection goods, services and technology. 23/ Such programmes can make important contributions to improved environmental protection in

developing countries, provided that the promotion of exports of industrial pollution abatement equipment does not shift emphasis in international aid programmes away from support to improvements in infrastructure - for example, in sewerage and drainage systems. It is also important to ensure that aid programmes and export promotion programmes promote the transfer of equipment which is the most appropriate to the environmental and developmental conditions in the recipient developing countries, 24/ and that close integration of development assistance with export-promotion functions does not threaten the adaptation and diffusion of technology. 25/

72. In some cases developing countries and countries in transition may successfully compete in the market for environmental goods and services. 26/ Since new markets for environmental goods and services are emerging in the developing countries, there may be opportunities for South-South trade, in particular in goods and services using technologies that have been designed with the local environmental and developmental conditions in the developing countries in mind.

73. The Commission, at its second session, stressed the possible trading opportunities that might emerge for "environment-friendly" products from developing countries. 27/ Demand for such products stems principally from developed country markets. Many natural products with environmental advantages are produced by developing countries. Increased utilization of these products by developing countries themselves could contribute to environmental protection in those countries, lead to savings on foreign exchange spent on alternative imports, or enhance trade among developing countries.

74. An important question is how to define and certify environment-friendly products. Since no product is absolutely environment friendly, it is important to ensure that environmental claims be credible, take account of consumer interests and support fair competition. ISO's work is important in this context.

75. Another question is how policy changes may encourage the competitiveness of environment-friendly products. For example, to the extent that (importing) countries move towards fuller internalization of environmental costs in the case of substitutes for inherently environment-friendly products, the competitiveness of the latter may be further enhanced. In this context, the UNCTAD Committee on Commodities concluded that, in cases were such demand shifts did not occur spontaneously, it could be expected that fiscal and pricing measures to encourage the internalization of environmental costs could result in significant changes in patterns of consumption.

2. Conceptual and empirical questions

76. A large and growing market exists for environmental goods and services. According to a widely quoted OECD study, the global market for them will grow from an estimated $200 billion in 1990 to $300 billion in the year 2000. 28/ More work is needed to analyse the opportunities arising from the market, including opportunities for producers in developing countries. An analysis of

the effects of linking official development assistance with the promotion of exports of environmental goods and services may also be useful.

77. The conceptual and empirical questions relating to environmental factors as trading opportunities include the following: the extent to which market forces, assisted by growing consumer environmental awareness, will generate increased demand for environment-friendly products, and how permanent the demand for specific products can be expected to be; whether and under what conditions consumers are willing to pay a premium for products with environmental advantages; how significant the trading opportunities are for developing countries, considering market access, competitiveness and supply constraints.

3. Ongoing work in international organizations

78. Some analysis has been made of trade in environmental goods and services, in particular in OECD. Work in other organizations - FAO, UNCTAD, UNEP and ITC - has focused on trading opportunities for environment-friendly products. Progress has also been made in coordination arrangements among these organizations - for example, the important and complementary roles of UNCTAD and ITC in information dissemination and technical assistance for exploiting the new trading opportunities arising from environmental concerns (UNCTAD at the intergovernmental and policy level and ITC at the operational level). 29/

79. In UNCTAD, the Committee on Commodities has been examining issues related to improving the competitiveness of natural products with environmental advantages. The UNCTAD secretariat is implementing a technical cooperation project on environmentally preferable products. Trading opportunities for environment-friendly products are also being analysed in the Ad Hoc Working Group on Trade, Environment and Development.

80. As part of its overall programme on environment-related trade promotion in developing countries, the International Trade Centre (ITC) is expanding its activities to provide information on trading opportunities for environment-friendly products, eco-labelling systems and eco-packaging criteria and procedures and to assist developing country producers to seize trading opportunities in their target markets. ITC is also considering providing assistance to institutions, associations and enterprises in developing countries in establishing product-specific sector level labels or national-level eco-labelling schemes.

4. Policy questions

81. The promotion of trading opportunities for environment-friendly products from developing countries may be enhanced through technical assistance and capacity-building efforts. For example, the UNCTAD Standing Committee on Commodities decided that there was considerable scope for financial and technical cooperation between developed and developing countries for improving the environmental advantages of natural products. Technical assistance and support to national capacity-building could focus on a number of areas, such as the provision of information, assistance in market research and marketing, and

technical assistance to testing and certification bodies in the developing countries and countries in transition.

82. International cooperation on eco-labelling and eco-certification may further assist developing countries in producing and exporting environment-friendly products, while taking account of the local environmental and developmental conditions in the countries of production.

83. More work is needed to specify ways and means by which the credibility of environmental claims relating to products from developing countries can be substantiated. Technical assistance would be required to establish mechanisms for certifying or substantiating such claims and for facilitating the exports of environment-friendly products from developing countries.

F. Trade policies and the environment

1. The issues

84. Chapter 2 of Agenda 21, in particular programme area A, on promoting sustainable development through trade, stressed the importance of trade liberalization for the promotion of sustainable development. Improved market access has an important role to play in moving towards sustainable development, by providing resources for environmental improvements and by increasing efficiency. Improved market access also facilitates the diversification of production and exports, thus reducing the heavy dependence of many countries on a few commodities for foreign exchange earnings. The implementation of the results of the Uruguay Round will improve market access. However, it remains important to identify areas where further trade liberalization - e.g., by reducing or eliminating tariff escalation - could contribute to sustainable development.

85. Further trade liberalization is a necessary but not sufficient condition for sustainable development. The resulting changes in economic activity have environmental effects which may be positive or negative, depending on specific situations and policies. National Governments have an interest in analysing the environmental effects of significant changes in production and consumption patterns, including those resulting from trade policy reforms, and in making the policy adjustments necessary to avoid negative environmental effects.

86. Excessive environmental damage from an economic point of view results when the marginal social cost of using environmental resources exceeds the marginal social benefit. The divergence between marginal social cost and benefit arises due to market failure - the failure of markets to equate marginal social cost and benefit, or policy failure - a microeconomic policy that encourages excessive use of an environmental resource. In this context, the Commission, at its second session, stressed the need to decrease subsidies that have harmful environmental and trade-distorting effects. To the extent that trade-distorting policies are also environmental policy failures (i.e., agricultural input subsidies, disincentives to transfer environmentally sound technology etc.), trade liberalization will have the added benefit of mitigating some degradation. Alternatively, trade liberalization may exacerbate underlying policy or market

failures, leading to increased environmental degradation. This should not be suggested as an argument against liberalization. Rather, this is indicative of the need for environmental policies to address the market and policy failures that complement trade liberalization policies.

87. One aspect of trade liberalization in developing countries is greater openness and increased competition in their domestic markets. Greater openness has facilitated the importation of up-to-date technologies and the availability of environmentally preferable chemicals and other raw materials. In some cases, such as fisheries and tropical timber, import liberalization may offer temporary solutions by alleviating the pressure on the intensive use of resources domestically. In other cases, trade liberalization may have negative environmental effects.

88. Greater openness and increased commercial and investment links with countries where environmental requirements are stringent have also contributed to environmental improvements, especially by larger firms, and to building awareness. The industrial restructuring process may facilitate the introduction of environmental improvements. Also, increased import competition may result in certain improvements in the environmental performance of firms, as a result of their efforts to achieve higher production efficiency.

89. Concerns have been raised, especially by developing countries, with respect to the export, in particular by developed countries, of domestically prohibited goods in the country of export. 30/

2. Conceptual and empirical questions

90. The environmental effects of trade have often been debated, and certain conclusions can be drawn. First, trade does not directly contribute to environmental degradation; unsustainable production methods are at the root of the problem. However, while environmental degradation could be attributed to market and policy failures, trade can serve as a magnifier. Second, in the absence of trade liberalization, the environment may or may not be worse off, depending on the interaction of trade-distorting policies and underlying market or policy failures. Third, to the extent that liberalization increases welfare and results in higher income levels, countries may move to higher levels of environmental protection.

91. How trade liberalization affects the environment is basically an empirical question. As implied above, it follows that an empirical analysis should not be carried out in isolation of the broader development process. Trade liberalization, if accompanied with appropriate environmental policies, may facilitate internalization of environmental costs by expanding the growth opportunities of a country.

92. Conceptual and empirical analysis of the effects of trade liberalization on the environment has focused on a number of effects, such as composition effects (effects on the structure of output and hence on the average pollution intensity of production), structural effects, regulatory effects (effects on the ability of Governments to design and implement environmental policies), technology

effects (effects of technology transfers and freer investment flows), product effects, and scale effects.

3. Ongoing work in international organizations

93. The WTO Committee on Trade and Environment is analysing the environmental benefits of removing trade restrictions and distortions. In accordance with the decisions of the UNCTAD Standing Committee of Commodities, in its conceptual and empirical work on the internalization of environmental externalities, the UNCTAD secretariat will focus on the impact on the environment of major distortions in price mechanisms - in particular on the impact of subsidies.

94. OECD has carried out extensive analysis of the effects of trade liberalization on the environment and has developed a conceptual framework and a methodology for conducting environmental reviews of trade policies and agreements. 31/ UNEP is providing technical assistance to developing countries in this area. UNEP prepared a background paper on environmental reviews and trade policy and held a working-level expert group meeting to review the compatibility of macroeconomic and environmental assessment modelling. An international conference on environmental review of trade policy will be hosted by UNEP in late 1995 or early 1996, to review assessment methodologies, sectoral studies, policy option responses and capacity-building needs at the national level.

95. Several issues analysed under the joint UNCTAD/UNDP project on the reconciliation of environmental and trade policies deal with the effects of trade liberalization on the environment and the identification of policies that mitigate possible negative environmental effects without sacrificing the benefits of trade liberalization.

96. The WTO Committee on Trade and Environment initiated its work with deliberation on domestically prohibited goods. FAO and UNEP established a joint programme for the implementation of prior informed consent in 1990. Such consent refers to the principle that international shipments of chemicals, including pesticides that are banned or severely restricted in order to protect human health or the environment, should proceed only with the explicit agreement of the national authority in the participating importing country. The consent procedure includes certain pesticide formulations that are actively toxic. To date, 127 member countries have designated national authorities to be responsible for prior informed consent. Compilations of import decisions are forwarded to participating countries biannually. FAO and UNEP are preparing a legally binding instrument on prior informed consent in order to make the currently voluntary, non-binding procedure more effective. The conclusion of a convention on the subject is envisaged for 1997.

4. Policy questions

97. Further trade liberalization is a necessary but not sufficient condition for sustainable development. Trade liberalization may have positive as well as negative environmental effects. Where trade liberalization would have negative

environmental effects, policies are required to address market and policy failures. Further empirical analysis and capacity-building are required to assist Governments in assessing the environmental effects of trade policies, in order to facilitate national policies aimed at avoiding or mitigating adverse environmental effects.

III. CAPACITY-BUILDING

98. The Commission, at its second session, underlined efforts to make trade and environment mutually supportive through, inter alia, strengthening technical assistance in capacity-building undertaken by UNCTAD, UNDP and UNEP. UNDP will focus in particular on the impact of trade and environment on development. Building capacity to integrate trade and environmental policies into the development planning process is crucial, as is the capacity to develop and implement appropriate policy responses. The UNCTAD secretariat is developing a monograph on capacity-building in the area of trade and environment, to be published in a UNDP series of monographs on capacity-building for sustainable development.

99. UNCTAD, in cooperation with UNDP and UNEP, is implementing a comprehensive technical assistance programme. 32/ Under the joint UNCTAD/UNDP project on the reconciliation of environmental and trade policies, research institutes in developing countries are analysing country-specific experiences in order to better understand trade and environment linkages. In addition, a number of country case studies are being undertaken under the joint UNCTAD/UNEP project on capacity-building in trade and environment. 33/

100. The UNCTAD secretariat, as part of its technical cooperation programme, has been organizing training and capacity-building seminars. UNEP and UNDP are contributing to further improvement of the training package and to the organization of workshops. For example, a seminar for African countries, hosted by UNEP in Nairobi from 26 to 29 July 1994, was attended by 45 participants from 33 countries. The secretariats of GATT, UNCTAD, UNDP and UNEP provided resource persons.

101. UNEP is providing technical assistance to support public environmental education, environmental awareness, and environmental capacity-building.

IV. CONCLUSIONS AND RECOMMENDATIONS

A. Conclusions

102. A number of issues related to the linkages between trade, environment and development emerged from Agenda 21 and the Commission on Sustainable Development at its second session. It is important to place trade and environmental issues within the broader framework of sustainable development. This requires that the fullest possible account be taken of the special conditions and development needs of the developing countries. There is also a need for support to build institutional capacity in developing countries and countries in transition.

103. The present report has identified a number of key issues related to the linkages between trade, environment and sustainable development. Each involves conceptual, empirical and policy questions. Ongoing work in different international organizations aims at clarifying these issues, through policy analysis and debate, and at deriving policy conclusions therefrom. Major groups, such as non-governmental organizations and the private sector, are also addressing trade and environment linkages and are making important contributions to a better understanding of them.

104. Positive measures, such as improved market access, improved access to technology and finance, capacity-building and special provisions for small firms, are the most effective instruments for supporting developing countries and countries in transition in their efforts to internalize environmental externalities.

105. There is need to analyse the potential effects of the product-specific policies that have emerged recently, such as eco-labelling and certain packaging and recycling requirements. It is important to analyse how improved transparency and international cooperation could be strengthened, particularly where there are potentially negative effects. Additional measures can be taken at the national level.

106. With regard to eco-labelling, it is important to improve transparency and to exercise care in applying criteria relating to process and production methods in product categories where imports, particularly imports from developing countries, are predominant.

107. Positive measures, including financial and technical assistance, should be preferred over trade measures to encourage the widest possible participation in multilateral environmental agreements. Governments should strive to ensure that trade provisions in new agreements are consistent with the WTO rules and trade principles, such as non-discrimination, least trade-restrictiveness and transparency.

108. Consumer preferences for environment-friendly products may create trading opportunities for developing countries. More work is needed to specify ways and means by which the credibility of environmental claims relating to products from developing countries can be substantiated.

109. Further trade liberalization is a necessary but not sufficient condition for sustainable development. Trade liberalization may have positive as well as negative environmental effects. National Governments have an interest in analysing the environmental effects of significant changes in production and consumption patterns, including those resulting from trade policy reforms, and in making the policy adjustments necessary to avoid negative environmental effects. Where trade liberalization would have a negative environmental effect, accompanying policies to address market and policy failures are required.

110. The present report has made several suggestions for strengthening the positive linkages between trade and environmental policies. It should be noted, however, that in many cases there is no clear relationship between trade and environment and that, in general, trade policy should not be used for the

attainment of environmental objectives. In pursuing environmental sustainability, countries should use direct measures which address the specific distortions or market failures.

B. Recommendations

111. The Commission may wish to take the following action:

(a) Invite UNCTAD, in cooperation with UNEP, WTO, the Department for Policy Coordination and Sustainable Development of the United Nations Secretariat and other appropriate institutions, to consider preparing a background paper for the Commission which would review the growing volume of research carried out by academic institutions in developed and developing countries, including some in the framework of projects supported by international and bilateral aid agencies, on the interlinkages of trade, environment and sustainable development, with a view to identifying possible gaps, facilitating an exchange of information, and encouraging capacity-building efforts in developing countries and countries in transition;

(b) Encourage UNDP, UNCTAD and UNEP to strengthen further their technical assistance for capacity-building in integrating trade, environment and development policies;

(c) Recommend that the Governments of OECD countries and multilateral aid agencies strengthen their efforts to implement measures to improve the access of developing countries and countries in transition to markets, technology and finance and to build capacity in order to support their efforts to internalize environmental externalities. International organizations could undertake further work in this area with a view to identifying innovative approaches;

(d) With respect to eco-labelling and certain other packaging and recycling requirements, invite UNCTAD and UNEP, in cooperation with ISO, OECD and other relevant international organizations, to analyse how transparency and international cooperation could be strengthened, particularly where those requirements might have negative impacts; recommend that Governments take steps to avoid or mitigate the adverse effects of such requirements on developing countries by ensuring sufficient recycling facilities for materials used by exporters from developing countries and by providing technical assistance aimed at improving the recyclability or reuse of such materials;

(e) Encourage UNEP and UNCTAD to continue to explore the scope for "equivalencies" and mutual recognition among eco-labelling schemes;

(f) Invite WTO, UNCTAD and UNEP to examine carefully the effects of proposed trade measures in multilateral environmental agreements on the trade and competitiveness of developing countries and, in order to induce compliance with the agreements, to examine how compensation could be provided for any resulting economic or trade losses;

(g) Invite multilateral and bilateral development institutions to provide technical assistance to developing countries in order to establish mechanisms

for certifying or substantiating claims for losses, as referred to above, and for facilitating the export of environment-friendly products from developing countries;

(h) Encourage international organizations and bilateral development programmes to undertake empirical analysis and capacity-building to assist Governments in assessing the environmental effects of trade policies, in order to facilitate national policies aimed at avoiding or mitigating adverse environmental effects.

Notes

1/ Report of the United Nations Conference on Environment and Development, Rio de Janeiro, 3-14 June 1992 (A/CONF.151/26/Rev.1 (Vol. I and Vol. I/Corr.1, Vol. II, Vol. III and Vol. III/Corr.1)) (United Nations publication, Sales No. E.93.I.8 and corrigenda), Vol. I: Resolutions adopted by the Conference, resolution 1, annex II.

2/ Official Records of the Economic and Social Council, 1994, Supplement No. 13 (E/1994/33/Rev.1, chap. I, paras. 25-42).

3/ A synthesis report of a number of country specific studies carried out under the joint UNCTAD/UNDP project on reconciliation of environmental and trade policies will be discussed at a high-level expert group meeting hosted by UNDP (New York, 10-11 April 1995).

4/ The list of meetings is as follows:

(a) The Intergovernmental Group on Meat, fifteenth session, 3-6 October 1994, covered environmental concerns and the meat and livestock sectors: basic issues and implications for trade;

(b) The Sub-Group on Hides and Skins, fourth session, 27-29 September 1994, discussed the environmental impact of processing hides, skins and leather;

(c) The Intergovernmental Group on Jute, Kenaf and Allied Fibres, twenty-ninth session, 6-8 December 1993, dealt with jute and the environment;

(d) Expert Group Meeting on Diversified Applications of Bio Resources such as Jute, Kenaf, Coir, Sisal and Allied Fibres, 5-7 October 1994, covered, inter alia, energy potential from wastes of jute, kenaf, coir and sisal;

(e) The Intergovernmental Group on Wine and Vine Products, sixth session, 5-9 September 1994, reviewed developments in environmental legislation and implications for trade in the past year;

(f) The Technical Consultation on the Code for Responsible Fishing, 26 September-5 October 1994, discussed a draft on post-harvest practices and trade of the Code of Conduct, which covers aspects of environment, trade and the conservation of living aquatic resources.

5/ The 10 areas are internalization; environmental standards; emerging trends in environmental policy-making; eco-labelling and certification; the role of science; indicators of sustainable development; multilateral environmental agreements; additional financing and technology transfer; positive incentives to build compatibility between trade and environment; and capacity-building.

Cooperation between UNCTAD and UNEP also covers the internalization of environmental externalities, which is a fundamental issue at the interface between trade and environment. Work focuses on the practical problems that need to be resolved so that policies undertaken in respect of internalization do not impair the development efforts of developing countries and are consistent with the economic, financial, institutional, legal and social conditions of those countries. See E/CN.17/1994/CRP.2.

6/ For example, the International Institute for Sustainable Development in Winnipeg, Canada, published GATT, the WTO and Sustainable Development (Winnipeg, IISD, 1993).

7/ For example, the Latin American Faculty for Social Studies is implementing a project, supported by the International Development Research Centre in Canada, consisting of a number of case studies on trade and environment linkages carried out by researchers in developing countries.

8/ GATT, "Report on the GATT Symposium on Trade, Environment and Sustainable Development", News and Views from the General Agreement on Tariffs and Trade (TE 008, 28 July 1994).

9/ The main purpose of the Programme is to protect the health of the consumers and to ensure fair practices in food trade. The Codex Alimentarius Commission has a membership of 150 countries. It has adopted over the years a large number of food standards; codes of hygienic and technological practice; maximum residue levels for pesticides, veterinary drugs and other contaminants in food; and maximum levels for food additives. It has also adopted guidelines for food labelling. Many of the Codex recommendations are health-related, and WHO has invited its member States to put them into public health practice, since foods complying with Codex recommendation are safe and offer adequate health protection.

10/ UNCTAD, "The impact of environment-related policies on export competitiveness and market access" (TD/B/41(1)/4).

11/ The Group initiated its deliberations on international cooperation on eco-labelling at its first session, held from 28 November to 2 December 1994. In accordance with its terms of reference, the Group focused its deliberations on a comparative analysis of current and planned schemes, with a view to discussing concepts such as mutual recognition and equivalencies; and an examination of the possibilities for taking into account the interests of developing countries in the elaboration of eco-labelling criteria. Discussions were aided by the secretariat's report "Eco-labelling and market opportunities for environmentally friendly products" (TD/B/WG.6/2).

12/ "Eco-dumping" could be defined as the practice by a country of deliberately setting its standards at an artificially low level or not enforcing them, in order to gain a competitive trade advantage or attract investment.

13/ OECD, Environmental Policies and Industrial Competitiveness (Paris, 1993).

14/ Piritta Sorsa, "Environmental protectionism, North/South trade, and the Uruguay Round", paper presented to the Symposium on the World Economy after the Uruguay Round, with Some Implications for Austria. IMF Working Paper WP/95/6.

15/ Commercial and investment links with countries where environmental requirements are stringent often contribute to high environmental standards, in particular in the case of larger firms, which have direct contacts with foreign clients and possess the financial and technological means to invest in environmental improvements. Larger firms in some developing countries are also increasingly using ISO-9000 quality management standards (which are not environment-related) and in those countries there is considerable interest in the ongoing process in ISO aimed at developing similar standards for environmental management systems through the ISO-14000 series. Many larger firms in developing countries are aware that ISO-14000 standards provide a basis for third-party certification/registration of a firm's environmental management systems, giving it greater credibility with financial institutions, insurance companies, regulators and consumers.

16/ OECD, Trade and Environment: Processes and Production Methods (Paris, 1994).

17/ "The measurement of the impact of environmental regulations on trade" (CCP 95/15).

18/ H. L. M. Kox, "The international commodity-related environmental agreement: background and design", paper prepared for the ICREA Research Project, Faculty of Economics and Econometrics, Free University, Amsterdam (June 1994).

19/ "The economic assessment of production-related environmental impacts: an FAO manual" (ESC/M/94/7).

20/ See the UNEP series of publications Environment and Trade, and especially Nos. 6, 7 and 10.

21/ The 1972 Convention on the Prevention of Marine Pollution by Dumping of Wastes and Other Matter, amended in 1993.

22/ Office of Technology Assessment, Trade and Environment: Conflicts and Opportunities (Washington, D.C., United States Government, Printing Office, 1993), pp. 120 and 121. A major item in large environmental projects tends to be local expenditures - for example, for local construction (waste-water-treatment plant construction, landfill or incinerator development, power plant scrubber installation, etc.) or for low-value materials can often be more

cheaply provided locally. A large part of environmental spending in the industrialized countries is for the day-to-day operation of water and waste-water utilities and refuse collection and disposal.

23/ "Export promotion and environmental technologies" (OECD/GD(94)9).

24/ Office of Technology Assessment, op. cit.

25/ Keith Kozloff and Olatokumbo Shobowale, "Rethinking development assistance for renewable electricity" (Washington, D.C., World Resources Institute, November 1994).

26/ TD/B/40(1)/4. Using the definition of pollution abatement equipment given in a recent study by the United States Environmental Protection Agency, the UNCTAD secretariat estimated that world trade amounted to approximately US$ 6.6 billion in 1992. It is interesting to note that Asian developing countries absorbed almost one third of OECD exports in 1992. Almost 9 per cent of Asian imports were supplied by intra-Asian trade.

27/ Increased utilization of these products by developing countries themselves could contribute to environmental protection there and lead to savings on foreign exchange spent on alternative imports. Moreover, the long-term sustainability of production may be enhanced and eventual cost savings may be realized through the introduction of environmentally preferable practices, leading to improved competitiveness. The time needed for these long-term effects to take place is an important consideration for developing countries.

28/ "The OECD environmental industry: situation, prospects and government policies" (OECD/GS(92)/1).

29/ "Final report of the Ad Hoc Working Group on Expansion of Trading Opportunities for Developing Countries" (TD/B/41(1)/7 and TD/B/WG.4/15).

30/ Information on such products is contained in Consolidated List of Products Whose Consumption and/or Sale Have Been Banned, Withdrawn, Severely Restricted or Not Approved by Governments (United Nations publication, Sales No. E.94.IV.3).

31/ OECD, The Environmental Effects of Trade (Paris, 1994); "Methodologies for trade and environment reviews" (OECD/GD/(94)103).

32/ See, for example, "UNCTAD's technical cooperation programme on trade and environment" (TD/B/WG.6/MISC.1).

33/ Technical cooperation activities that can contribute to capacity-building are also undertaken as part of UNDP-funded regional projects for Asia and the Pacific and for Latin America and the Caribbean, which are implemented by UNCTAD.